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Message Text

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ACTION EA-12

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INR-10 NSAE-00 /036 W
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R 050430Z JUL 78
FM AMEMBASSY TAIPEI
TO USDOC WASHDC
INFO SECSTATE WASHDC 7976

UNCLAS SECTION 01 OF 02 TAIPEI 04223

STATE FOR EXIMBANK

E.O. 11652:N/A
TAGS: BENC, TW
SUBJECT: MAJOR PROJECT: TANG ENG STAINLESS STEEL PLANT

REF: TAIPEI 1202 AND PREVIOUS

1. SUMMARY: TENDER FOR COLD-ROLLING MACHINERY AND EQUIPMENT FOR STAINLESS STEEL MILL IS EXPECTED TO BE ISSUED IN JULY. TAIWAN PROVINCIAL GOVERNMENT HAS APPROVED PROJECT AND FORMAL APPROVAL OF CENTRAL GOVERNMENT IS EXPECTED SHORTLY. EXTERNAL FINANCING OF PROJECT WILL BE A MAJOR FACTOR IN CHOICE OF SUPPLIER.

2. OVERVIEW OF THE PROJECT: TANG ENG IRON WORKS LTD. HAS MAPPED OUT PLAN TO BUILD A 50,000 MT/YEAR COLD-ROLLING STAINLESS STEEL MILL IN TWO PHASES WITH ENTIRE PROJECT BEING COMPLETED IN 1981. PHASE 1 INVOLVES INSTALLATION OF A COMPLETE COLD ROLLING EQUIPMENT TO PRODUCE STAINLESS STEEL STRIPS WITH IMPORTED SLABS. PHASE 2 CALLS FOR ADDITION OF MELTING AND CASTING EQUIPMENT TO THE PROJECTED PLANT WHICH WOULD BE LINKED WITH HOT ROLLING PROCESS IN ADJACENT STEEL MILL OF CHINA STEEL CORP. TO FORM AN INTEGRAL PRODUCTION SYSTEM.
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(PREVIOUSLY, TANG ENG HAD PLANNED TO HAVE BOTH COLD ROLLING AND HOT ROLLING PRODUCTION LINES). MASTER PLAN AND PHASE 1 BUDGET OF THE PROJECT WERE PASSED BY TAIWAN PROVINCIAL LEGISLATURE JUNE 1, 1978. A GRANT OF NT DOLS 200 MILLION (EQUIVALENT TO US DOLS 52.6 MILLION) FROM SINO-AMERICAN FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT (SAFED) SIGNALS SUPPORT FROM CENTRAL GOVERNMENT LEVEL. FEASIBILITY

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STUDY NOW COMPLETED BY CANADIAN CONTRACTOR, FERRCO, WAS SUBMITTED BY TANG ENG LATE LAST MONTH TO BOTH TAIWAN PROVINCIAL GOVERNMENT (TPG) AND ROC GOVERNMENT FOR SPECIAL APPROVAL TO PERMIT IMPORT OF PLANT EQUIPMENT DUTY FREE AND USE OF STATE-OWNED BANK AS GUARANTOR FOR FOREIGN LOAN. APPROVAL EXPECTED TO BE OBTAINED FROM TPG IN JULY TO ISSUE TENDER WITH SPECIFICATIONS FOR PURCHASE OF EQUIPMENT THROUGH CENTRAL TRUST OF CHINA. BIDS WOULD BE OPENED IN OCTOBER TO DETERMINE FINALISTS FROM AMONG SUCH PRE-QUALIFIED BIDDERS AS POLLMAN-SWINDELL, WATERBURY-FARREL, AS WELL AS JAPANESE, BRITISH AND WEST GERMAN COMPETITORS. TANG ENG'S VP TIMOTHY YU REVEALED THAT ALTERNATIVELY A DIRECT PRICE NEGOTIATION IN LIEU OF OPEN BID COULD POSSIBLY BE HELD IN NOVEMBER.

- BUDGET FOR PHASE 2 SHOULD BE FINALIZED IN OCTOBER AFTER PRELIMINARY APPROVAL OBTAINED FROM TPG IN AUGUST. PASSAGE OF THE BUDGET INCLUDED IN FY1980 EXPECTED TO BE COMPLETED BY PROVINCIAL ASSEMBLY IN JUNE 1979. ARMCO PROBABLY WILL BE CONTRACTED TO PROVIDE TECHNICAL KNOW-HOW FOR PHASE 2, AS IT DID FOR PHASE 1. QUOTATIONS FOR PHASE 2 HAVE ALREADY BEEN OFFERED BY FOUR CONSULTING FIRMS INCLUDING PENNSYLVANIA ENGINEERING CO. (U.S.), ATKINS (BRITISH), A JAPANESE FIRM (LICENSEE OF UNION CARBIDE) AND ANOTHER U. S. FIRM.

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3. FINANCIAL DATA: TOTAL INVESTMENT ESTIMATED AT US DOLS 63.2 MILLION AT CURRENT RATE. A BREAKDOWN ON INVESTMENT IS GIVEN AS BELOW:

LAND ACQUISITION (16.5 HECTARES)	US DOLS 5.1 MILLION
FACTORY BUILDING AND CONSTRUCTION	3.7 MILLION
COLD ROLLING EQUIPMENT	52.6 MILLION
PUBLIC FACILITIES	.4 MILLION
OTHER ACCESSORY EQUIPMENT	.5 MILLION
ADMINISTRATIVE EXPENSES	.9 MILLION
TOTAL:	US DOLS 63.2 MILLION

FINANCING SOURCES INCLUDE US DOLS 14.1 MILLION FROM REVENUE GENERATED BY SALE OF TANG ENG'S LAND, US DOLS 6.6 MILLION FROM DOMESTIC LOANS AND US DOLS 42.5 MILLION TO BE BORROWED FROM FOREIGN BANKS. EXPENDITURES SCHEDULED FOR 1979 AT US DOLS 16.9 MILLION, 1980 AT US DOLS 30.7 MILLION AND 1981 AT US DOLS 15.6 MILLION RESPECTIVELY.

ANNUAL EARNINGS AFTER TAX ESTIMATED AT US DOLS 9.5

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MILLION ONCE FULL PRODUCTION IS ACHIEVED. TOTAL INVESTMENT
IS EXPECTED TO BE PAID OFF OVER 11 YEARS. INTEREST RATE
ON DOMESTIC LOANS TOTALLING U.S. DOLS 6.6 MILLION WITH 7
YEAR MATURITY WILL BE 10.5 PERCENT PER ANNUM. INTEREST
RATE FOR FOREIGN LOAN ESTIMATED AT 7.5-8 PERCENT

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PER ANNUM. FOREIGN LOAN WILL BE REPAID IN 11 YEARS BY
TWO INSTALLMENTS EACH YEAR, I.E., JUNE AND DECEMBER.
DOMESTIC AND FOREIGN LOANS WILL BE REPAID AT NT DOLLAR
VALUE OR FOREIGN EXCHANGE RATE IN CASE OF REVALUATION.

4. MARKET DATA: TAIWAN'S FOREIGN TRADE STATISTICS SHOW
SHARP INCREASE IN IMPORTS OF STAINLESS STEEL STRIPS FROM
13,240 M.T. IN 1971 TO 45,000 M.T. IN 1977. BASED
ON AN ANNUAL GROWTH RATE OF 10 PERCENT, DOMESTIC DEMAND
ESTIMATED TO BE 70,000 M.T. IN 1981 AND 80,000 M.T. IN
1983. OVER 90 PERCENT OF STAINLESS STEEL STRIPS ARE
IMPORTED FROM JAPAN. MAJORITY OF LOCAL STAINLESS STEEL
PROCESSING MANUFACTURERS HAVE HAD BITTER EXPERIENCE IN
RELYING ON THE SINGLE SOURCE OF SUPPLY DURING PAST SEVERAL
YEARS. THEY WERE OFTEN FORCED TO SUSPEND PRODUCTION
BECAUSE OF PRICE HIKE TOTALLY AT DISCRETION OF SUPPLIER.
THE PROJECT AFTER COMPLETION WILL NOT ONLY SAVE OUTFLOW
OF US DOLS 90 MILLION FOREIGN EXCHANGE ANNUALLY BUT
ALSO GREATLY HELP NARROW NATION'S TRADE GAP WITH JAPAN.
CURRENT DEMAND BY END USERS IN TAIWAN BY CATEGORY AND
MONTHLY DEMAND IS AS FOLLOWS: KITCHENWARE 1,000 M.T.,
TABLEWARE OR FLATWARE 900 M.T., TUBES AND PIPES 700 M.T.,
BUILDING MATERIALS 70 M.T., VEHICLES 250 M.T., HARDWARE
200 M.T., FARMING IMPLEMENTS 50 M.T., TEXTILE MACHINERY
100 M.T., WATER TREATMENT 90 M.T., FOOD PROCESSING 60

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M.T., OTHER MISCELLANEOUS INDUSTRIES 130 M.T. UNGER

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